

Annual Report 1956

FOR YEAR ENDED JANUARY 31, 1957

INTERSTATE

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

DEPARTMENT

STORES, INC.

Directors

SAMUEL J. ABEND
SOL W. CANTOR
CHARLES E. FEDERMAN
PAOLINO GERLI
EMANUEL P. LEWIS

HAROLD F. LINDER
BENJAMIN W. MAYER
ALBERT PARKER
MURRAY D. SAFANIE
HAROLD J. SZOLD

Officers

Chairman of the Board MURRAY D. SAFANIE*
President SOL W. CANTOR
Vice President SAMUEL J. ABEND
Vice President BARRY GOLDEN
Treasurer GEORGE H. STUNTZ
Secretary ALBERT PARKER
Assistant Treasurer and Assistant Secretary
EDWARD C. SCHENKEL

Transfer Agent

THE CHASE MANHATTAN BANK.....New York

Registrar

MANUFACTURERS TRUST COMPANY.....New York

General Counsel

PARKER, CHAPIN AND FLATTAU.....New York

Public Accountants

S. D. LEIDESDORF & CO.New York

Executive and General Offices

111 EIGHTH AVENUE.....New York

Shares Listed

NEW YORK STOCK EXCHANGE

Annual Meeting

FOURTH WEDNESDAY IN MAY

Summary of 1956

	Years Ended January 31	
	1957	1956
Sales	\$67,184,604	\$66,359,495
Net Income Before Taxes	2,131,309	2,348,613
Net Income After Taxes	1,323,860	1,360,975
Earnings Per Share	4.20	4.40
Dividends Paid Per Share	2.50	2.50
Long Term Debt	5,172,348	5,465,541
Working Capital	13,153,291	13,206,365
Stockholders' Equity Per Share	47.75	45.99
Current Ratio	3.4 to 1	3.8 to 1

April 26, 1957

TO THE STOCKHOLDERS OF INTERSTATE DEPARTMENT STORES, INC.

Sales for the year ended January 31, 1957, as shown in the summary of our operations on page 1, were slightly higher than in the previous year, while income was slightly lower. Total volume reached a new peak and the gain was registered entirely in our owned departments. Part of the increase of slightly over one million dollars, or 1.7%, was offset by a small decline in the sales of leased departments.

The progress would have been more pronounced except for a rather extraordinary coincidence of unfavorable developments particularly affecting the north central states, where most of our stores are located. These adverse factors included the steel strike which affected the metal working cities where our trade position is especially strong; unfavorable weather during the summer months and, more importantly, during the critical period just prior to Christmas. We feel that the record for 1956 was excellent in face of these circumstances.

We can say of the past year that it was one in which we advanced Interstate's program of establishing for each of its stores a reputation in its community for integrity of merchandise and competitive price policies. We are also continuing gradually with our program of expansion into modern shopping centers and modernization of existing stores, and significant progress was made in that direction in the past year.

SALES

Operations during 1956 resulted in the highest sales in the history of the Company. Total volume for the year ended January 31, 1957 equalled \$67,184,600, an increase of 1.2% over the sales of 1955.

It should also be noted that this sales volume was accomplished with only a negligible increase in the number of stores in operation — namely, a shopping center branch of our large store in Rockford, Illinois.

EARNINGS

For fiscal year 1956, earnings after provision of \$827,300 for depreciation and before taxes equalled \$2,131,300, as compared to \$2,348,600 after pro-

vision for depreciation of \$765,800 for the previous year. After taxes, earnings were \$1,323,800 against \$1,360,900 for fiscal 1955, equivalent to \$4.20 per share of common stock compared with \$4.40 per share in the prior year.

The full benefit of the sales increase was not carried through to net income largely as a consequence of an increase in wage and salary scales. This action had a temporarily deterring effect on profits. We feel, however, that it will help to attract more capable sales personnel to our stores and bring about greater sales productivity per employee. This is a program that is being pushed energetically in all our stores, and with excellent results. The benefits derived from higher income standards for our employees will be reflected progressively in our results in the future. In a sense, therefore, the action taken last year is an investment in personnel from which yields will be derived for a long while to come.

FINANCIAL POSITION

Working capital at the end of the year amounted to \$13,153,200, compared with \$13,206,300 at January 31, 1956. The respective current ratios were 3.4 to 1 and 3.8 to 1. The decline in working capital during the year was slight, despite the reduction of long-term debt to banks and insurance companies by approximately \$300,000.

Increases in charge accounts reflects the introduction and enlargement of credit arrangements in more of our stores. This is a trend in retailing. While it stimulates additional volume of business, it also enlarges our working capital requirements. Collections on our accounts continue to be satisfactory.

DIVIDENDS

The Company has maintained quarterly dividends on its common stock for many years. The present rate of \$2.50 per share was inaugurated in 1951, and was maintained last year. The regular quarterly dividend of 62½ cents per share for the first quarter of the current fiscal year was paid on April 15, 1957.

Due to the retention of 40.5% of our earnings of the year, stockholders' equity at book value again increased during 1956 from \$45.99 per share to \$47.75 per share at January 31, 1957.

STATEMENT of SOURCE and APPLICATION of FUNDS

	Year Ended Jan. 31, 1957	Year Ended Jan. 31, 1956
Additions to Working Capital		
Net earnings and special item	\$1,323,860	\$1,360,975
Depreciation and amortization	827,371	765,810
Increase in mortgages on property acquired		325,000
Decrease in deferred charges	111,747	163,849
Increase in deferred Federal taxes	45,000	20,000
Proceeds from issuance of 8,000 shares of common stock for stock options exercised		252,700
	<u>\$2,307,978</u>	<u>\$2,560,636</u>
Deductions from Working Capital		
Improvements of existing properties ..	\$1,022,459	\$ 678,650
Acquisition of new properties	156,503	414,918
Dividends paid	787,636	773,761
Decrease in long term debt	293,193	810,804
Treasury stock acquired	48,399	
Increase in other assets	43,400	3,121
Decrease in deferred income — carrying charges	9,462	13,136
	<u>\$2,361,052</u>	<u>\$2,694,390</u>
Decrease in Working Capital	\$ 53,074	\$ 133,754

BUILDING EQUIPMENT AND FIXTURES

During the past year, approximately \$1,022,400 was spent in further improving our store buildings and fixtures. Improvements made in our Marion, Indiana and Battle Creek, Michigan stores, alone absorbed more than 50% of the total outlay for the year on modernization and improvement. The cost of this program for 1956 exceeded the cash available from the year's depreciation provision by \$195,000.

This program of improvement is being carried forward constantly by the Company. The downtown stores which constitute the bulk of our operations still play a very important part in consumer purchasing patterns.

Though new shopping center stores tend to affect the sales of downtown stores, many advantages are realized in advertising costs and otherwise in the operation of related shopping center stores. Nonetheless, our efforts are not being relaxed to maintain the profitability of downtown units, and this is accomplished in part by upgrading the quality of our merchandise and the services performed by the downtown establishments. Our experience in this program to date indicates the merit of the policy, particularly as an integral part of the entire program of extending activities to the outlying areas of urban communities.

NEW STORES AND PLANS

As indicated earlier, we have opened a branch shopping center store in Rockford, Illinois. The store was well received in the community and should prove to be a consistently profitable operation.

The second shopping center store in our program was opened in February 1957 in Flint, Michigan. This unit of over 50,000 square feet is related to the downtown department store being operated by the Company. The store opened successfully and promises to be a profitable unit.

Photographs of the two new shopping center stores can be found on page seven.

Construction has been started on a new shopping center store at Latham Corners, New York. This center, regional in scope, will draw from the important Schenectady - Albany - Troy area. Our store will probably be opened in the fall of 1957 or early spring 1958. Likewise, construction is in progress on a shopping center branch of the Evansville, Indiana store which should be ready to open this fall.

Our store expansion program is being carried out with a minimum of capital investment. The Company's investment in new stores is generally confined to the inventory needs of such stores, the receivables, and the normal expenses associated with opening a new store. The Company's total investment in fixed assets is held to a minimum and well within the amount which can be sustained by our financial position.

PERSONNEL

It is with great sorrow that you are advised that your Chairman of the Board, R. C. Kramer, passed away on January 24, 1957, after having served

your Company ably and unstintingly since 1937. The Directors join the entire personnel of the Company in expressing their profound loss in the untimely passing of Mr. Kramer. His able leadership and dedicated service have made a permanent imprint on the affairs of your Company and his policies will long remain as an important contribution to the history of the Company.

At the meeting of the Board of Directors on March 27, 1957, Mr. Murray D. Safanie who has been a Director since 1951 was elected Chairman of the Board.

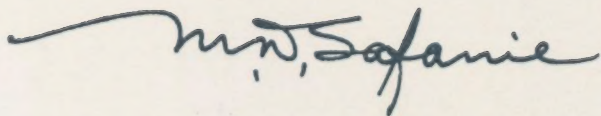
OUTLOOK

The stores which constitute the Interstate Department Stores group are firmly established in their respective communities as resources that supply the needs of the people. In most cases, they have been established for many years. It is our program to secure their position in their respective communities more firmly by the quality of their merchandise, the services performed by the stores to each community, and the values offered.

Coincidentally, we are meeting the shift in population and in purchasing habits by extending to outlying areas the service and the goods which we offer. While this operation is in process, your management is maintaining the earning power of the total enterprise. The improvements in old stores and the additions of new stores should steadily lift our volume of business and earnings.

The program of "tightening" inventory control and mechanical operation, and lifting the productivity of each employee, is progressing favorably. Subject to fluctuations in the general economy, and particularly the north central region we serve, we are confident that Interstate Department Stores will make substantial progress in sales and earnings in the current and future years.

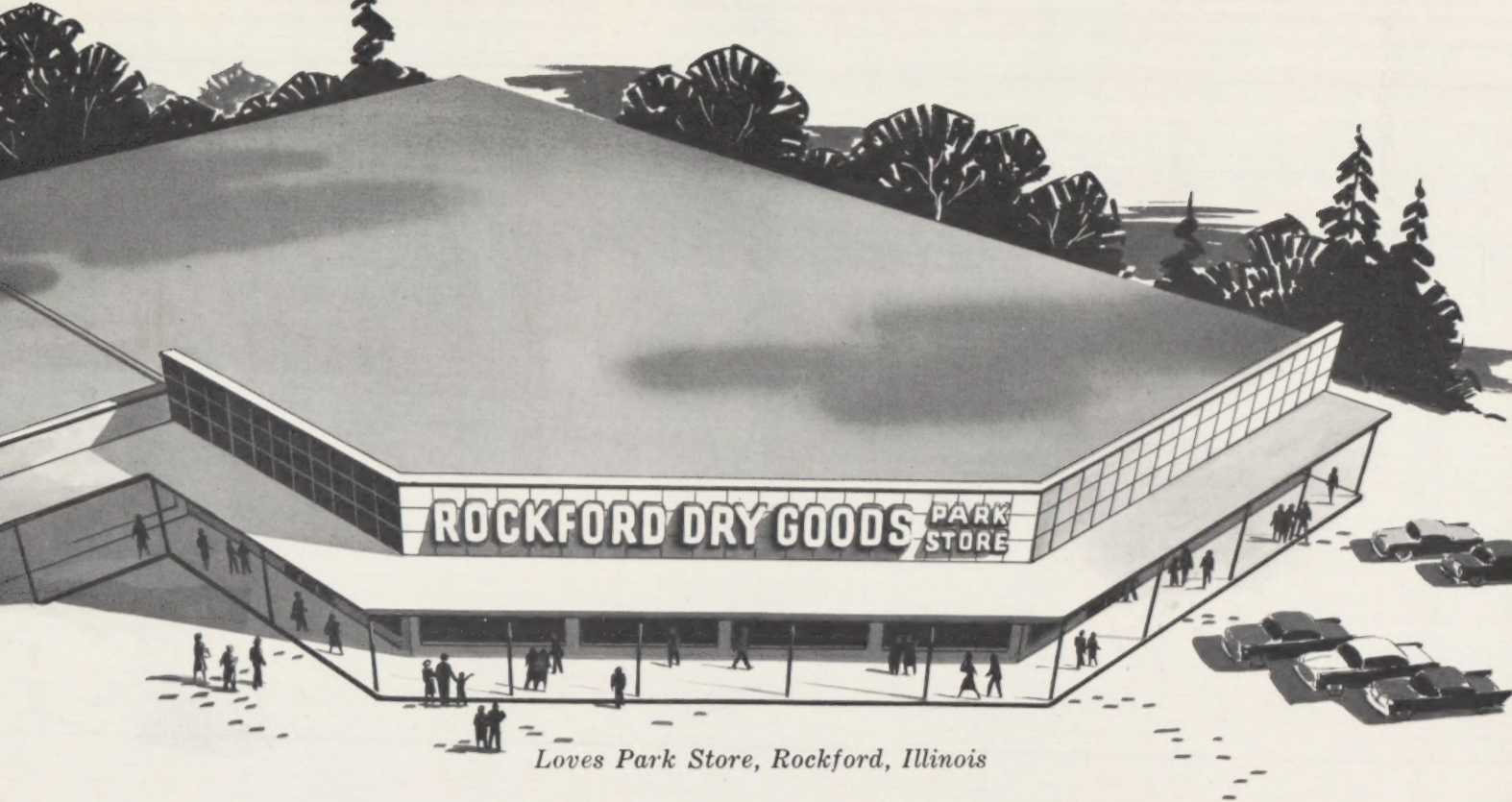
For the Board of Directors,



M. D. SAFANIE, *Chairman*



S. W. CANTOR, *President*



Loves Park Store, Rockford, Illinois

*Artists' renderings of
Interstate Department Stores
newest suburban units
now in operation*



South Flint Plaza Store, Flint, Michigan

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet

ASSETS

	1957		1956	
CURRENT ASSETS:				
Cash		\$ 1,095,438		\$ 628,492
Accounts receivable:				
Customers	\$ 5,654,246		\$ 5,553,151	
Less: Reserves	461,429	5,192,817	494,638	5,058,513
Other (Note A)		489,399		382,710
Merchandise inventories (Note B) ..	11,552,287		11,723,209	
Less: Reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	44,380	11,507,907	166,931	11,556,278
Prepaid expenses		392,605		361,797
Total Current Assets		18,678,166		17,987,790
OTHER ASSETS (Note A)		57,093		13,693
FIXED ASSETS—at cost:				
Land (subject to mortgages — per contra)	\$ 185,099		\$ 185,099	
Buildings (subject to mortgages — per contra)	\$ 511,733		\$ 511,733	
Less: Reserves for depreciation	115,178		92,684	
	\$ 396,555		\$ 419,049	
Furniture and equipment	\$ 5,442,725		\$ 5,239,326	
Less: Reserves for depreciation	2,800,718		2,477,576	
	\$ 2,642,007		\$ 2,761,750	
Leaseholds and leasehold improvements	\$ 4,761,033		\$ 4,027,219	
Less: Reserves for amortization	1,195,536		955,550	
	\$ 3,565,497	6,789,158	\$ 3,071,669	6,437,567
DEFERRED CHARGES		298,345		410,092
		\$25,822,762		\$24,849,142

The Notes to Financial Statements are an integral part of this

as at January 31, 1957-1956

LIABILITIES

	1957	1956
CURRENT LIABILITIES:		
Notes payable—current installments (Note C)	\$ 265,000	\$ 265,000
Accounts payable—trade	2,814,224	2,520,949
Accrued expenses and other liabilities	1,176,904	1,421,694
Taxes withheld and accrued, other than Federal income taxes	604,118	516,527
Accrued Federal income taxes	\$ 963,941	\$1,053,424
Less: United States Treasury bills —at cost plus accrued interest ..	299,312 664,629	996,169 57,255
Total Current Liabilities	5,524,875	4,781,425
DEFERRED FEDERAL TAXES	65,000	20,000
LONG-TERM DEBT:		
Notes payable (Note C)	4,750,000	5,015,000
Mortgages payable	422,348 5,172,348	450,541 5,465,541
Total Liabilities	10,762,223	10,266,966
DEFERRED INCOME—CARRYING CHARGES	62,249	71,711
STOCKHOLDERS' EQUITY (Notes C and D)	14,998,290	14,510,465
LEASE COMMITMENTS (Note E)		
	\$25,822,762	\$24,849,142

statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

For the Year Ended January 31, 1957-1956

	1957	1956
NET SALES:		
Owned Departments	\$60,086,455	\$59,061,773
Leased Departments	7,098,149	7,297,722
	<u>67,184,604</u>	<u>66,359,495</u>
COST OF SALES (including certain buying, occupancy and distribution expenses)	50,591,259	49,918,199
	<u>16,593,345</u>	<u>16,441,296</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,574,533	14,039,116
	<u>2,018,812</u>	<u>2,402,180</u>
OTHER INCOME—NET	338,044	165,195
	<u>2,356,856</u>	<u>2,567,375</u>
INTEREST EXPENSE	225,547	218,762
NET EARNINGS BEFORE FEDERAL INCOME TAXES	<u>2,131,309</u>	<u>2,348,613</u>
PROVISION FOR FEDERAL INCOME TAXES	930,000	1,020,000
NET EARNINGS	<u>1,201,309</u>	<u>1,328,613</u>
SPECIAL ITEM:		
Decrease in reserve to reduce merchandise inventories at cost as determined on the "last-in, first-out" basis to the lower of cost or market	122,551	32,362
NET EARNINGS AND SPECIAL ITEM	<u>\$ 1,323,860</u>	<u>\$ 1,360,975</u>

Depreciation and amortization amounting to \$827,371 for the year ended January 31, 1957, and \$765,810 for the year ended January 31, 1956, have been charged to cost of sales and selling, general and administrative expenses.

NOTES TO FINANCIAL STATEMENTS

As At January 31, 1957

Reference is made to the Annual Report for the year ended January 31, 1956, for the notes pertaining to financial statements as at that date.

NOTE A — The accompanying consolidated balance sheet includes \$78,930 due from officers and employees arising from installment sales (at cost) of treasury stock acquired during the year; the stock is pledged as collateral for the indebtedness. Installments of \$36,730 due prior to February 1, 1958, are included in "Accounts Receivable—Other" and the balance of \$42,200 due thereafter is included in "Other Assets."

NOTE B — Merchandise inventories include merchandise in transit amounting to \$1,233,962 as at January 31, 1957, based on specific invoice cost.

Merchandise inventories at stores are based on the retail method at (a) cost as determined on the "last-in, first-out" basis, or (b) the lower of cost or market after provision for markdowns based on age of merchandise.

Merchandise inventories at warehouses are priced at the lower of cost or replacement market.

NOTE C — Notes payable as at January 31, 1957, are due to:

Bank	\$2,000,000
Insurance company	3,015,000
	<u>\$5,015,000</u>

The bank loan is payable in annual installments of \$500,000 on November 1, 1958 and 1959, and a final installment of \$1,000,000 on November 1, 1960. Interest is payable quarterly at an annual rate of not less than 2½% nor more than 3¼%, determined as prescribed in the credit agreement under which the loan was made.

INTERSTATE DEPARTMENT STORES, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Stockholders' Equity

For the Year Ended January 31, 1957-1956

	1957	1956
EARNINGS RETAINED FOR USE IN THE BUSINESS AS AT BEGINNING OF YEAR	\$10,800,326	\$10,213,112
NET EARNINGS AND SPECIAL ITEM	1,323,860	1,360,975
	12,124,186	11,574,087
CASH DIVIDENDS PAID	787,636	773,761
EARNINGS RETAINED FOR USE IN THE BUSINESS AS AT END OF YEAR	11,336,550	10,800,326
CAPITAL SURPLUS	2,162,758	2,162,758
COMMON STOCK (stated at par value of \$1 per share since May 27, 1953, plus \$1,271,306 retained as Capital by resolution of the Board of Directors—no par value prior thereto)		
Authorized 500,000 shares		
Issued 316,946 shares	1,588,252	1,588,252
	15,087,560	14,551,336
Less—Treasury stock—at cost (2,846 shares—1957; 1,446 shares—1956)	89,270	40,871
STOCKHOLDERS' EQUITY (Notes C and D)	\$14,998,290	\$14,510,465

The notes payable to an insurance company in the amounts of \$2,275,000 and \$740,000 require annual payments as follows: on the first note, \$200,000 in 1957 and 1958, \$325,000 in 1959, \$350,000 from 1960 through 1962 and \$500,000 in 1963; on the second note, \$65,000 from 1957 through 1966, inclusive, and \$90,000 in 1967.

The loan agreements with the insurance company and the bank credit agreement contain, among other things, restrictions on the right of the Company to declare dividends (other than stock dividends) and reduce its capital stock, including, with respect to the insurance company loan agreements, a requirement that, after giving effect to the payment of such dividends, there are prescribed ratios of consolidated net current assets and of consolidated net tangible assets to consolidated funded debt. As at January 31, 1957, approximately \$2,650,000 of the consolidated surplus of \$13,499,308 is not subject to the aforementioned restrictions contained in the agreements.

NOTE D—A stock option plan for officers and key employees of the Company and its subsidiaries authorized the granting of options to purchase not in excess of 25,000 shares of the Common Stock of the Company. To January 31, 1956, options to purchase 10,500 shares had been granted of which options for 8,000 shares had been exercised. An option for the purchase of 2,500 shares at \$27.43125 per share, granted in a prior year, is outstanding at January 31, 1957.

NOTE E—At January 31, 1957, the minimum annual rentals of real property leased to the Company or to its subsidiaries under 62 leases expiring after January 31, 1960, amount to approximately, \$1,300,000 plus, in certain instances, real estate taxes, insurance, etc.

GENERAL—The accompanying financial statements are subject to final determination of Federal, state and local taxes.

Accountants' Report

To the Board of Directors

INTERSTATE DEPARTMENT STORES, INC.
New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1957, and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1957, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

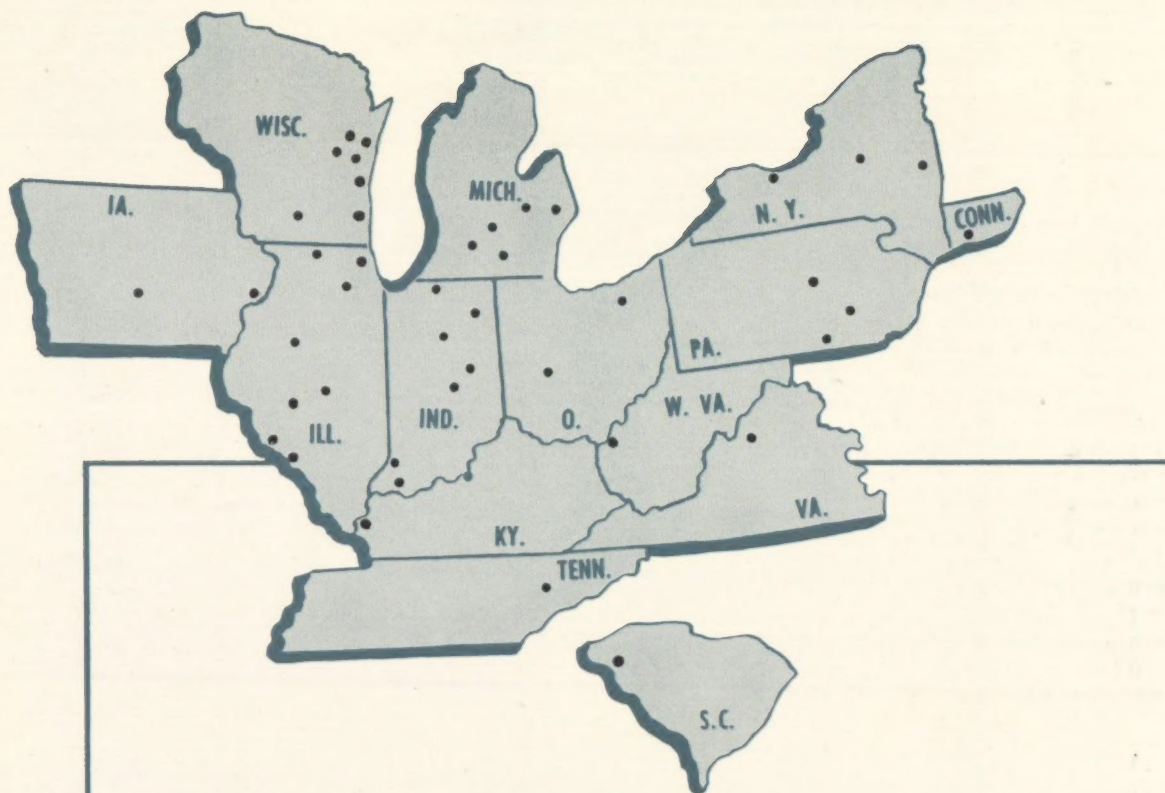
New York, N. Y.
April 15, 1957

S. D. LEIDESDORF & Co.
Certified Public Accountants

10 Year Comparative Operating Statistics

(in thousands of dollars)

Years Ended January 31,	SALES			NET INCOME		Earnings Per Share	Dividends Paid Per Share	Stockholders' Equity Per Share
	Total	Owned Departments	Leased Departments	Before Fed. Inc. Tax	After Fed. Inc. Tax			
1957	\$67,184	\$60,086	\$7,098	\$2,131	\$1,323	\$4.20	\$2.50	\$47.75
1956	66,359	59,062	7,297	2,348	1,360	4.40	2.50	45.99
1955	62,902	55,511	7,391	1,980	1,078	3.51	2.50	44.46
1954	63,865	56,317	7,548	1,829	1,032	3.36	2.50	43.45
1953	64,758	56,900	7,858	2,198	1,188	3.87	2.50	42.59
1952	64,853	56,511	8,342	2,319	1,293	4.20	2.50	41.20
1951	65,508	57,107	8,401	3,320	1,993	6.45	2.125	39.46
1950	61,752	52,016	9,736	1,885	1,160	3.76	2.00	35.13
1949	66,886	57,179	9,707	2,700	1,590	5.15	2.00	33.38
1948	62,813	52,893	9,920	2,388	1,427	4.62	2.00	30.23



LOCATION OF OUR STORES

CONNECTICUT

New Haven

ILLINOIS

*Aurora
Belleville
Decatur
Peoria
Rockford
Loves Park
Springfield
Waukegan*

INDIANA

*Anderson
Evansville
Fort Wayne
Marion
Muncie
South Bend
Vincennes*

IOWA

*Davenport
Des Moines*

KENTUCKY

*Louisville
Paducah*

MICHIGAN

*Battle Creek
Flint
So. Flint Plaza
Jackson
Lansing
Port Huron*

NEW YORK

*Rochester
Troy
Utica*

OHIO

*Akron
Springfield*

PENNSYLVANIA

*Reading
Williamsport
York*

SO. CAROLINA

Anderson

TENNESSEE

Knoxville

WEST VIRGINIA

Huntington

WISCONSIN

*Fond du Lac
Green Bay
Madison
Milwaukee
Racine
Sheboygan
West Bend*

VIRGINIA

Staunton

VERMONT

Rutland (2)

INTERSTATE DEPARTMENT STORES, INC.

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